

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05 INT-05 FEAE-00

OES-03 NSC-05 SS-15 STR-01 CEA-01 L-02 H-01 DODE-00

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 7386

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 0544

E.O.11652: N/A

AGS: EFIN, EGEN, BR

SUBJECT: BRAZIL'S ECONOMIC PRIORITIES FOR 1975

REF: BRASILIA 9711

1. BEGIN UNCLASSIFIED: SUMMARY: THE ECONOMIC DEVELOPMENT COUNCIL APPROVED ON JANUARY 15 THE FOLLOWING ECONOMIC PRIORITIES FOR 1975: THE VITALIZATION OF THE PRIVATE SECTOR AND AN IMPORVEMENT OF SOCIAL ASPECTS OF SOCIETY, INCLUDING BETTER INCOME DISTRIBUTION: THE MAINTENANCE OF A HIGH LEVEL OF INVESTMENTS: THE EXECUTION AND ACCELERATIONOF PROGRES DESIGNED TO GIVE BRAZIL SELF-SUFFICIENCY IN BASIC INPUTS: AND THE CONTINUATION OF EFFORTS TOWARD NATIONAL INTEGRATION. THE PROGRAM APPROVED MAKES NO EFFORT TO SET RIGID TARGETS FOR 1975, AND NOES THAT, GIVEN THE UNCERTAIN WORLD ECONOMIC OUTLOOK, IT IS IMPORTANT TO MAINTAIN FLEXIBILITY AND THE ABILITY TO REACT QUICKLY TO EVENTS, ON THE 1974 RESULTS, THE DOCUMENT CINFIRMS
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THAT THE ECONOMY GEW BY 10 PERCENT AND THAT THE

OVERALL BALANCE OF PAYMENTS CLOSED WITH A DEFICIT OF ABOUT \$1.0 BILLION. THE PROGRAM IS ESSENTIALLY AN ELABORATION OF GEISEL'S YEAR-END SPEECH (REFTEL).
END SUMMARY.

2. THE ECONOMIC DEVELOPMENT COUNCIL (CDE), BRAZIL'S ECONOMIC POLICY-MAKING UNIT, WHICH IS CHAIRED BY THE PRESIDENT OF BRAZIL, APPROVED ON JANUARY 15 THE ECONOMIC PRIORITIES PLAN FOR 1975. THE MAJOR GOALS SET FOR ECONOMIC POLICY IN 1975 ARE THE FOLLOWING:

A. THE VITALIZATION OF THE PRIVATE SECTOR AND AN EMPHASIS ON SOCIAL DEVELOPMENT, WITH CONTINUED ATTENTION FOR MEASURES TO IMPROVE INCOME DISTRIBUTION. THESE PRIORITIES WERE IDENTIFIED IN THE PLAN AS IMPORTANT GOALS FOR THE REALIZATION OF AN OPEN SOCIETY.

B. TO MAINTAIN A HIGH LEVEL OF INVESTMENT, BOTH IN THE PRIVATE AND PUBLIC SECTORS, IN ORDER TO SUPPORT HIGH RATES OF ECONOMIC GROWTH.

C. SINCE 1975 IS THE FIRST YEAR OF THE SECOND DEVELOPMENT PLAN, THE GOB WILL GIVE PARTICULAR IMPORTANCE TO THE EXECUTION AND ACCELERATION OF PROGRAMS INCLUDED IN THE DEVELOPMENT PLAN, SUCH AS:

-- TO BEGIN THE EXECUTION OF PROJECTS AIMED AT SELF-SUFFICIENCY IN BASIC INPUTS, I.E., FERTILIZER, PAPER AND CELLULOSE, NON-FERROUS METALS, PHARMACEUTICAL PRODUCTS, PETROCHEMICAL PRODUCTS, ETC.;

-- TO ACCELERATE THE DEVELOPMENT OF THE DOMESTIC CAPITAL EQUIPMENT INDUSTRY:

-- TO IMPLEMENT THE SECOND BASIC PLAN FOR THE DEVELOPMENT OF SCIENCE AND TECHNOLOGY:

-- TO PUSH AHEAD WITH THE MODERNIZATION AND DEVELOPMENT OF THE AGRO-INDUSTRY. THE FOOD INDUSTRY AND OTHER INDUSTRIES OF POPULAR (MASS) CONSUMPTION:

-- TO GIVE PRIORITY ATTENTION TO RESEARCH PROJECTS IN MINERAL RESOURCES, IN LINE WITH EXISTING PROGRAMS FOR SELF-SUFFICIENCY AND EXPORT PROMOTION:

-- TO CREATE NEW MECHANISMS AND PROVIDE ADDITIONAL RESOURCES FOR PROGRAMS DESIGNED TO IMPROVE THE WELL-BEING OF THE URBAN POPULATION, PARTICULARLY IN THE LIMITED OFFICIAL USE

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AREAS OF TRANSPORTATION, HEALTH, HOUSING, WATER, ETC.:

-- TO IMPLEMENT PROGRAMS OF NATIONAL INTEGRATION, SUCH AS POLAMAZONIA, POLONORDESTE, ETC.:

3. THE PLAN AVOIDS THE FORMULATION OF ECONOMIC FORECASTS. IT DOES, HOWEVER, SET FORTH SOME GENERAL PERSPECTIVES FOR 1975:

-- IT MAINTAINS THAT BRAZIL IS ONE OF THE FEW

COUNTRIES IN THE WORLD THAT HAS THE CONDITIONS TO CONTINUE ON AN ACCELERATED GROWTH PATH, ON THE BASIS THAT ECONOMIES LIKE BRAZIL'S ARE NOT VERY VULNERABLE TO EXTENAL RECESSION. IF ADEQUATE ECONOMIC POLICIES ARE PURSUED. THUS, BRAZIL FACDS FROM A POSITION OF STRENGTH THE PERIOD OF TRANSITION WHICH THE WORLD ECONOMY WILL BE GOING THROUGH IN THE NEXT TWO TO THREE YEARS. DURING THIS PERIOD BRAZIL WILL FOCUS ITS EFFORTS ON IMPORT SUBSTITUTION, EXPANDING THE CAPITAL GOODS INDUSTRY, STABILIZING THE INCOME OF THE AGRICULTURAL SECTOR, EXPANDING EXPORTS AND INCRESING THE INTERANL MARKET.

-- GIVEN THE UNCERTAIN WORLD ECONOMIC OUTLOOK, THE GOB CONSIDERS IT IMPORTANT TO MAINTAIN FLEXIBILITY AND TO ACT QUICKOY IN ESPONSE TO EXONOMIC EVENTS. THE PLAN PREDICTS THAT THE DIFFERENCE BETWEEN THE GROWTH RATE OF BRAZIL AND THE AVERAGE GROWTH RATE FOR THE OTER COUNTRIES, INCLUDING THE DEVELOPED WORLD, WILL BECOME EVEN GREATER IN 1975.

-- INFLATION SHOULD CONTINUE ITS GRADUAL DECELERATION, NOT ONLY IN RELATION TO 1974 AS A WHOLE BUT ALSO IN RELATION TO THE SECOND HALF OF 1974. TO HELP CONTAIN INFLATION, A 20 PERCENT CEILING WAS PLACED ON 1975 PRICE INCREASES FOR GOODS AND SERVICES PROVIDED BY THE PUBLIC SECTOR.

-- ON THE EXTERNAL SIDE, A SUBSTANTIAL REDUCTION OF THE TRADE DEFICIT IS EXPECTED; IMPORTS WILL BE HELD DOWN PARTICULARLY FOR THEPUBLIC SECTOR, WHILE EXPORTS WILL CONTINUE TO BE PUSHED. THE PLAN ESTIMATES EXPORTS BETWEEN \$9.5 BILLION AND \$10.0 BILLION.

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4. WITH RESPECT TO 1974, THE DOCUMENT CONFIRMS

THE FOLLOWING RESULTS:

-- GDP GROWTH: 10 PERCENT IN REAL TERMS;

-- PER CAPITAL GDP: \$800

-- INFLATION: 34-35 PERCENT;

--BALANCE OF PAYMENTS: OVERALL DEFICIT OF

\$1.0 BILLION, WITH FINANCIAL FLOWS AND IMPORT FINANCING

AMOUNTING TO \$6.5 BILLION, AND DIRECT INVESTMENTS

\$900 MILLION.

-- MONEY SUPPLY: INCREASED BY 40 PERCENT (AS

COMPARED WITH A 35 PERCENT CEILING SET IN THE MONETARY
BUDGET)

-- INVESTMENTS: THE LEVEL OF BNDE FINANCING

EXCEEDED THE 1973 TOTAL BY 136 PERCENT,

WHILE CDI APPROVALS, DURING THE FIRST THREE QUARTERS,

OF PROJECTS ELIGIBLE FOR FISCAL INCENTIVES WERE 100

PERCENT ABOVE THE SAME PERIOD OF 1973. END UNCLASSIFIED

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5. COMMENT:

A. THE PLAN OF ECONOMIC PRIORITIES APPROVED

BY THE CDE IS ESSENTIALLY AN ELABORATION OF PRESIDENT

GEISEL'S YEAR-END SPEECH (REFTEL). IT SUPPORTS GEISEL'S

DECLARATION THAT SOCIAL DEVELOPMENT AND INCOME

DISTRIBUTION WILL BE GIVEN PRIORITY ATTENTION IN 1975.

HOW FAR THE GOB WILL GO IN THIS DIRECTION REMAINS TO

BE SEEN. IT DOES APPEAR, HOWEVER, THAT THE GEISEL

ADMINISTRATION IS PREPARED TO DO MORE THAN ITS PREDECESSORS

IN THESE AREAS. SUCH EFFORTS IT SEEMS TO US, ARE NOT ONLY

SUPPORTABLE ON SOUND ECONOMIC GROUNDS, HOW THAT THE WORLD

ECONOMY IS IN A STATE OF STAGNATION AND WORLD TRADE IS

DECELERATING, BUT THEY ALSO MAKE A LOT OF SENSE POLITICALLY.

THE RAPID ECONOMIC GROWTH OF THE LAST SIX YEARS HAS CREATED

A NUMBER OF SOCIAL PROBLEMS -- PARTICULARLY IN THE

URBAN AREAS -- WHICH CAN NO LONGER BE IGNORED IF

DANGEROUS REPERCUSSIONS ARE TO BE AVOIDED.

B. THE TONE OF THE PLAN IS IN LINE WITH THE

GENERAL OPTIMISM WITH WHICH GOB OFFICIALS HAVE BEEN
VIEWING 1975. BRAZILIAN OFFICIALS FEEL THAT THEIR
ECONOMY CAN BE PRETTY MUCH ISOLATED FROM THE WORLD-SIDE
STAGNATION. THE PLAN REITERATES THIS POSITION IN
PROJECTING THAT THE DIFFERENCE BETWEEN BRAZIL'S GROWTH
RATE AND THE AVERAGE GROWTH RATE FOR THE REST OF THE
WORLD - INCLUDING OECD COUNTRIES -- SHOULD WIDEN EVEN
FURTHER IN FAVOR OF BRAZIL DURING 1975.
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